



# Memorandum

**TO:** HONORABLE MAYOR  
AND CITY COUNCIL

**FROM:** Paul Krutko

**SUBJECT: HP PAVILION AT SAN JOSE  
CAPITAL BUDGET  
RECOMMENDATIONS**

**DATE:** May 17, 2004

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Approved

/s/

Date

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## **RECOMMENDATION**

It is recommended that the City Council approve the attached HP Pavilion Capital Repairs and Replacement Budget as submitted by the San José Arena Authority Board of Directors.

## **BACKGROUND**

In accordance with the agreement with the San José Arena Management, an annual Capital Repairs and Replacement budget is presented to the City for approval. This budget is supported by the existing Arena Capital Reserve Fund that was established for this purpose.

## **ANALYSIS**

Attached is the memorandum from the San José Arena Authority Board of Directors regarding the 2004-2005 Capital Repairs and Replacement Budget for the HP Pavilion. A list of the individual capital improvements planned for FY 2004-2005, totaling \$391,000, is attached. The available balance not otherwise obligated in the Pavilion Capital Reserve Fund is \$371,600. San José Arena Management forecasts a payment to the fund of \$500,000 in August which would raise the available balance to \$871,600. If the capital improvement plan were approved, the balance available after August for unanticipated expenses is estimated at \$480,600.

As was the case last year, staff from the San José Arena Authority, the HP Pavilion, and the City have coordinated to present this budget as part of the City's annual budget process.

/s/

Paul Krutko  
Director of Economic Development

## MEMORANDUM

**To:** Honorable Mayor and Members of the City Council

**From:** William Clayton, Chair, San Jose Arena Authority Board of Directors

**Subject:** HP Pavilion at San Jose Capital Budget Recommendation

**Date:** May 10, 2004

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### **RECOMMENDATION**

It is recommended by the San Jose Arena Authority Board of Directors that the HP Pavilion at San Jose Capital Repairs and Replacements Budget submitted by HP Pavilion Management for Fiscal Year 2004-2005 be approved by the San Jose City Council.

### **BACKGROUND**

**Section 7.02. Capital Repairs, Replacements and Improvements.** of the Amended and Restated San Jose Arena Management Agreement identifies the submittal of a Capital Repairs and Replacements budget in the following fashion:

...(HP Pavilion at San Jose) Manager shall prepare and submit to City for its approval a preliminary budget for the following fiscal year which reasonably itemizes and estimates the cost of all Normal Capital Repairs and Replacements... City shall review and approve the preliminary budget, which approval shall not be unreasonably withheld or delayed. ...The Capital Budget shall not exceed the Reserve Fund balance that will be available to pay for budgeted amounts... The preliminary budget, as and when approved by City, shall constitute the Capital Budget.

### **ANALYSIS**

As required in the Amended and Restated Management Agreement, HP Pavilion Management has submitted their preliminary Capital budget, which does not exceed the Reserve Fund balance, for review and approval. The amount of the HP Pavilion at San Jose Capital Budget for Fiscal Year 2004-2005 is \$391,000 and involves a number of essential Capital improvements to the facility. Included in the proposed repairs and replacements is the replacement of homosote insulation flooring and repairs to the HVAC and lighting systems. A complete listing of the Capital Repairs and Replacements is provided as an attachment to this document.

For reference, the Amended and Restated Management Agreement defines Normal Capital Repairs and Replacements as the following:

**“Normal Capital Repairs and Replacements”** are those repairs and replacements of capital items, including fixtures, machinery or equipment, as distinguished from normal maintenance, which are necessary to repair or replace over time capital items of the Arena which are subject to wearing out after a useful life. Examples are roofs, floors, carpeting, and mechanical systems. Normal Capital Repairs and Replacements can be forecasted and budgeted for. As an example, the cost of replacements of seats by section due to normal wear and tear is a Normal Capital Repair and Replacement.

### **COORDINATION**

In October 2003, HP Pavilion Management presented their preliminary Fiscal Year 2004-2005 Capital Budget to the San Jose Arena Authority's Facilities Committee. During the succeeding months, Authority Board members and staff conducted an extensive analysis of the proposed budget, working directly with the City of San Jose and HP Pavilion Management in the refinement, adjustment and resubmission of the Capital Budget documents. As a result, a comprehensive Capital budget document was presented by the Facilities Committee to the Arena Authority Board of Directors in February, 2004.

Please be advised that at the February 25th Arena Authority Board of Directors meeting, the Authority Board unanimously approved the Facilities Committee's recommendation for the City of San Jose to approve HP Pavilion Management's Fiscal Year 2004-2005 Capital Repairs and Replacements Budget. Subsequent to the Board's approval, the Arena Authority forwarded the budget recommendation to the City Manager's Budget Office for review and consideration. Following the City Manager's Budget Office analysis, the City's Budget Director recommended to the Authority to forward the Capital budget recommendation to the Mayor and City Council.

### **COST IMPLICATIONS**

All work identified, implemented and completed under the title of Normal Capital Repairs and Replacements is funded through a Capital Reserve Fund as specified in the Amended and Restated Management Agreement. Sufficient funding is available to support the recommended budget of \$391,000. As of April 30, 2004, the balance in the Pavilion Capital Reserve Fund was \$1,636,417. Please note that the next installment to the Capital Reserve Fund will be funded by HP Pavilion Management on August 1, 2004.

The funding obligation of HP Pavilion Management for Fiscal Year 2004-2005 is in an amount equal to the greater of (a) two hundred and fifty thousand dollars (\$250,000), or (b) two percent (2%) of the average annual hockey revenue.

**HP PAVILION AT SAN JOSE**  
**Capital Budget Recommendation for 2004-2005**

<b>Description of Capital Repair/Replacement</b>	<b>Budgeted Amount</b>
Replace Batteries on Rider Scrubber	7,000
Replace Concrete at South Entry	18,000
Replace Walk Off Mats at North and South Entries	20,000
Replace Back Wall in Freight Elevator	5,500
Replace Trash/Ash Receptacles at Building Exits	6,000
Repair/Reset Tiles in Restrooms	7,000
Replace Folding Chairs	10,000
Replace Mirrors in Restrooms	8,000
Replace Homasote Used to Cover Ice for Various Events	55,000
Replace Ice Machines	21,000
Replace Fiberstar Lighting in Glass Block	20,000
Replace Two Motorized Carts	16,000
Replace Controllers Used for Automation Sequencing (Building Automation System)	16,000
Replace Exhaust Fan Motors in Pantries	15,000
Replace Faucets in Restrooms	6,000
HVAC Repairs	20,000
Replace Transformer in Back Stage Area	9,500
Add 600 amp Transformer	30,000
Repair/Replace Millwork in Various Locations	25,000
Replace Main Rail Sections on Retractable Seating	6,000
Security - Replace Microprocessor and Main Power Supply on Access System	13,000
Upgrade Facility Phone System to Allow 9-1-1 and Caller ID Locations to be Tracked	22,000
Replace Trash Containers on Concourse	15,000
Unanticipated Repairs and Replacements	20,000
<b>TOTAL</b>	<b>391,000</b>